

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 1665 - HB 1515**

February 27, 2014

**SUMMARY OF BILL:** Authorizes franchise and excise (F&E) tax credits equal to the lesser of \$5,000 or 20 percent of gross annual wages for each veteran hired, provided that the veteran is a Tennessee resident, has served on active duty after September 11, 2001, was unemployed for over 4 weeks preceding the hiring, was hired on or after January 1, 2014, was employed by the taxpayer seeking the credit for more than 180 consecutive days if the veteran was unemployed for less than 6 months, or 30 consecutive days if the veteran was unemployed for 6 months or more, and the taxpayer maintains documentation evidencing the veteran's honorable military service.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – \$2,716,400**

**Other Fiscal Impact – Additional economic impacts may occur as a result of this bill. However, due to many unknown factors, fiscal impacts directly attributable to secondary economic impacts cannot be quantified with reasonable certainty.**

Assumptions:

- According to the U.S. Department of Veterans Affairs (USDVA) data, the Tennessee Gulf War-era II veteran population is estimated to be approximately 48,267 in 2014.
- According to the U.S. Department of Labor, Bureau of Labor Statistics (BLS), the 2012 U.S. labor force participation rate for Gulf War-era II veterans was 80.7 percent. Assuming the Tennessee participation rate of 80 percent, it is estimated that in 2014 there will be approximately 38,614 (48,267 x 80.0%) Gulf War-era II veterans in the labor force.
- According to the Syracuse University's Institute for Veterans and Military Families 2013 report, the 2012 unemployment rate in Tennessee for Gulf War-era II veterans was 20.7 percent. Assuming the Tennessee unemployment rate of 20 percent, it is estimated that in 2014 the number of unemployed Gulf War-era II veterans will be 7,723 (38,614 x 20.0%).
- Based on BLS data on the number of U.S. unemployed persons by duration of unemployment, it is estimated that approximately 80 percent, or 6,178 (7,723 x 80.0%),

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of Gulf War-era II veterans in Tennessee will be unemployed for longer than four weeks.

- BLS data shows that in the U.S. the unemployment rate for those unemployed longer than five weeks has decreased by approximately 19.5 percent between January 2013 and January 2014. According to U.S. Department of Labor, in 2010 approximately 67.2 percent of employed Gulf War-era II veterans were working in the private sector. Therefore, it is assumed that approximately 70 percent of the annual decrease in the number of unemployed is due to the unemployed persons gaining private sector employment, and the remaining 30 percent is due to the unemployed persons exiting the labor force or gaining public sector employment.
- As a result, it is estimated that, out of the 6,178 Gulf War-era II veterans unemployed for over 4 weeks, 843 ( $6,178 \times 19.5\% \times 70.0\%$ ) would obtain private sector employment annually under current law without the tax credit in place. It is further estimated that an additional one percent, or 62 ( $6,178 \times 1.0\%$ ), of such veterans will receive employment in place of a non-veteran employee as a result of the tax credits authorized in this bill, for a total of 905 jobs filled with Gulf War-era II veterans. This number is assumed to remain constant into perpetuity.
- Any fiscal impact to the state associated with tax credits earned on such employees will be considered a decrease in state revenue.
- It is estimated that taxpayers will claim the credit for 70 percent, or 634 ( $905 \times 70.0\%$ ) of such employees.
- According to the U.S. Bureau of the Census, the 2012 median income of veterans was \$36,264.
- Under this bill, a taxpayer would be able to claim \$5,000 in tax credits for any wages over \$25,000 per employee. Assuming normal distribution, an average median income of \$37,000, and a minimum income of \$3,500, taxpayers will claim tax credits for 317 employees ( $634 \times 50\%$ ) with incomes of \$37,000 or over, for 106 employees ( $634 \times 50\% \times 33.33\%$ ) with incomes between \$25,000 and \$37,000, and for 211 employees ( $634 \times 50\% \times 66.66\%$ ) with incomes between \$3,500 and \$25,000.
- Further assuming the average income of the \$3,500 to \$25,000 income range to be \$14,250 [ $(\$3,500 + \$25,000) / 2$ ], the annual decrease in state revenue as a result of this bill is estimated to be \$2,716,350 [ $(317 \times \$5,000) + (106 \times \$5,000) + (211 \times \$14,250 \times 20.0\%)$ ].
- The bill takes effect January 1, 2015; however, it will apply to any Gulf War-era II veterans hired on or after January 1, 2014. Therefore it is assumed that the first-year (FY14-15) impact will be equal to the full-year impact.
- Any fiscal impact to the state associated with tax credits earned on Gulf War-era II veterans that will be hired as a direct result of the proposed tax credit and those jobs would not be created under current law in the absence of the credit will be considered forgone revenue. Due to many unknown factors, any amount of such forgone revenue cannot be determined with reasonable certainty.
- There could be subsequent impacts to state and local governments as a result of this bill. However, due to many unknown factors, such as the number of jobs created as a direct result of this bill that would not be created in the absence of the tax credit, spending habits of new job holders, and the extent of taxpayer savings that will be re-spent in

Tennessee on taxable goods and services, any such impacts cannot be quantified with reasonable certainty.

**IMPACT TO COMMERCE:**

**Decrease Business Expenditures – Net Impact – Exceeds \$2,000,000**

**Jobs Impact – Not Significant**

Assumptions:

- According to the U.S. Bureau of the Census, the 2012 median income of veterans was \$36,264, compared with \$26,278 for the population as whole.
- Assuming that additional wage expenditures will be incurred by small businesses who will hire Gulf War-era II veterans in place of other non-veteran job candidates, and that further expenditures will be incurred for any new jobs that would not be created in the absence of the tax credit, it is estimated that the net decrease in business expenditures will exceed \$2,000,000 annually.
- The impact on private sector jobs cannot be determined with reasonable certainty as it is unknown how many new jobs will be created as a result of the proposed tax credit that would not be created under current law in the absence of such credit. However, any such impact is estimated to be not significant.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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